

## Message Text

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ORIGIN TRSE-00

INFO OCT-01 EUR-12 EA-07 ISO-00 AID-05 CEA-01 CIAE-00

COME-00 EB-07 FRB-03 INR-07 IO-11 NEA-10 NSAE-00

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 L-03 H-02 FEA-01 OES-03 INT-05 /114 R

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DRAFTED BY BLS:EEMURPHY/TREAS:JMLISTER

APPROVED BY EB/IFD/OMA:GPBALABANIS

TREAS:CSCHOTTA

FRB:EMTRUMAN

CEA:DCOOPER

EB/FSE:WMILAM

EUR/RPE:WCLARK

EA/J:DSMITH

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FM SECSTATE WASHDC

TO AMEMBASSY TOKYO

INFO USMISSION OECD PARIS

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E.O. 11652:N/A

TAGS:EFIN, ECON, ENRG, OECD, JA

SUBJECT:JAPANESE QUESTIONS ON BLS PAPER ON EXPORT PRICE  
TRENDS

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REF: TOKYO 495

1. EMBASSY MAY TRANSMIT CONTENTS OF PARAS 2 THROUGH 4 BE-

LOW TO MIZOGUCHI, AND TO OTHER GOJ OFFICIALS AS APPROPRIATE.

2. USG APPRECIATES CRITICAL INTEREST SHOWN BY MIZOGUCHI IN THE SUBJECT OF TRENDS OF PRICES OF OECD EXPORTS TO OPEC. WE BELIEVE JAPAN, AS ONE OF FEW COUNTRIES COLLECTING STATISTICS ON SPECIFIC EXPORT PRICES, HAS IMPORTANT ROLE IN OECD NEED TO DEVELOP ADEQUATE FACTUAL BASIS FOR RESPONDING TO OPEC CONTENTIONS REGARDING DETERIORATION IN THEIR TERMS OF TRADE.

3. WE BELIEVE IT WOULD BE USEFUL FOR US REPRESENTATIVE TO MEET WITH JAPANESE REPRESENTATIVE IN ADVANCE OF TWP EXPERTS MEETING, PERHAPS AFTERNOON OF FEBRUARY 4 AT US OR JAPANESE MISSION TO OECD. SUCH A MEETING WOULD PROVIDE OPPORTUNITY TO DISCUSS DETAILS OF STUDIES CONDUCTED AT BLS AND TO CLEAR UP POSSIBLE MISUNDERSTANDINGS WHICH MAY EXIST.

4. FOLLOWING SUBPARAGRAPHS PROVIDE ANSWERS TO QUESTIONS

RAISED BY JAPANESE REPRESENTATIVE:

A. IN RESPECT TO YEAR CHOSEN FOR WEIGHTS, BLS STUDY USED INDEXES AS PREPARED BY GOJ. INDEX OF EXPORT UNIT VALUES (UVI) PUBLISHED BY MOF IS FISHER INDEX FOR WHICH LASPEYRES COMPONENT USES EXPORT VALUE WEIGHTS FOR 1970 AND PAASCHE COMPONENT USES CURRENT MONTH EXPORT VALUE WEIGHTS. EXPORT PRICE INDEX (XPI) PUBLISHED BY BOJ IS LASPEYRES INDEX USING EXPORT VALUE WEIGHTS FOR 1970. BOTH INDEXES USE REFERENCE PERIOD 1970 100. RESOURCES HAVE NOT BEEN AVAILABLE FOR U.S. TO ESTIMATE EFFECT OF TWO FORMULATIONS ON COMPARISONS BECAUSE ONE IS BASED ON UNIT VALUES AND OTHER IS BASED ON SPECIFICATION PRICES.

B. REFERENCE OR BASE PERIOD CHOSEN IN BLS STUDY IS FIRST QUARTER 1974 TO FIRST QUARTER 1975, TO CONFORM WITH PROCEDURE IN OTHER STUDIES ON SUBJECT OF INDUSTRIAL COUNTRIES' EXPORT PRICE TRENDS TO OPEC. SINCE PERIOD LATE 1973 TO EARLY 1974 EXPERIENCED LIMITED OFFICIAL USE

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HIGHER INFLATION RATES THAN OCCURRED LATER, MOVEMENT OF BASE TO ANOTHER TIME WILL ALTER ESTIMATED MAGNITUDE OF INFLATION, AS MIZOGUCHI HAS CORRECTLY NOTED. FOR INSTANCE, PERCENTAGE CHANGES IN UVI AND XPI DURING PERIOD 1ST QUARTER 1973 TO 1ST QUARTER 1974 ARE 16.4 AND 5.9, RESPECTIVELY, BUT RISE TO 38.0 AND 33.7 WHEN MEASURED FROM AVERAGE FOR 1973 TO AVERAGE FOR 1974 (CITED BY MIZOGUCHI IN REFTTEL). MEASUREMENTS OVER PERIOD DECEMBER 1973 TO DECEMBER 1974 (ALSO CITED BY MIZOGUCHI) ARE VERY MUCH HIGHER THAN

PERIOD BEGINNING JANUARY 1974 (I.E., JUST ONE MONTH LATER). HOWEVER, IN EACH CASE (AND UTILIZING OTHER PERIODS), IT IS INTERESTING TO NOTE THAT UVI INCREASED FASTER THAN XPI.

C. IF UNIT VALUES ARE LAGGED WITH RESPECT TO EXPORT PRICES, DIFFERENCES TEND TO BE SMALLER. HOWEVER, THIS PROCEDURE IS QUESTIONABLE AS REGARDS ITS MEANING. BLS HAS CONDUCTED SOME ANALYSIS OF THIS QUESTION USING MONTHLY XPI AND UVI OF FRG AND JAPAN, ONLY COUNTRIES FOR WHICH SUCH DATA EXIST COVERING ALL EXPORTS. PRELIMINARY ESTIMATES OF DISTRIBUTED LAG RELATION BETWEEN XPI AND UVI FOR EACH SHOW DIFFERENT STRUCTURAL RELATION BETWEEN TWO COUNTRIES, AND, AS INDICATED BY CHOW TEST, UNSTABLE RELATION WITHIN COUNTRY AFTER ACCOUNTING FOR SEASONAL AND AUTOCORRELATION INFLUENCES. THESE RESULTS, WHICH ARE PRELIMINARY, CONFIRM FINDINGS OF OTHER STUDIES WHICH SHOW USE OF UVI AS PROXY FOR XPI IS SUBJECT TO ERRORS WHICH POTENTIALLY ARE VERY LARGE.

5. (FYI ONLY) MIZOGUCHI, WHILE WELL TRAINED AS AN ECONOMETRICIAN, MAY NOT BE FULLY INFORMED ON THE TECHNICAL DIFFERENCES BETWEEN PRICE AND UNIT VALUE INDEXES IN VIEW OF NATURE OF QUESTIONS WHICH HE RAISES IN PARAGRAPH 4 REFTEL. IT IS INTERESTING TO NOTE THAT MIZOGUCHI IS WITH MOF, WHICH IS RESPONSIBLE FOR PRODUCING EXPORT UNIT VALUE INDEXES FOR JAPAN. EXPORT PRICE INDEXES ARE PRODUCED BY STATISTICAL DEPARTMENT OF BOJ. QUESTION B, PARAGRAPH 4 OF REFTEL, IMPLIES POSSIBLE SUPPORT FOR USE OF UNIT VALUE INDEXES THROUGH MECHANISTIC STATISTICAL ADJUSTMENT. SISCO LIMITED OFFICIAL USE

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## Message Attributes

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